DOCUMENT RESUME

ED 249 126 SO 015 889

AUTHOR Clanton, Brandolyn; And Others
TITLE Credit: A Teaching Unit.
INSTITUTION South Carolina State Dept. of Consumer Affairs, Columbia.; South Carolina State Dept. of Education, Columbia.
PUB DATE 84
NOTE 42p.; Developed with funds provided by American Federal, South Carolina National Bank and Direct Selling Education Foundation. Portions may be marginally legible.
PUB TYPE Guides - Classroom Use - Guides (For Teachers) (052)

EDRS PRICE MF01/PC02 Plus Postage.
DESCRIPTORS *Consumer Education; Consumer Protection; Contracts; *Credit (Finance); Economics Education; Interest (Finance); Laws; Learning Activities; Secondary Education
IDENTIFIERS *Credit Cards

ABSTRACT

Intended for teachers of secondary school students, five lessons on consumer credit are presented. In the first lesson students identify and evaluate sources of credit, compare some of the costs and benefits of credit, and learn to apply criteria used in evaluating applications for credit. In the second lesson, students learn about two basic types of charge accounts available to those applying for credit cards. The third lesson examines places where credit can be obtained, interest payments, and costs involved in financing a car. In the next lesson, students learn about contracting for credit. The final lesson helps students understand how state laws protect them in the areas of credit and contracts. Each lesson presents background information for the teacher, a classroom lesson, and supplementary activities. Some lessons include definitions and sample forms. A series of visual aids which highlight key credit laws follows a final situational activity in which students evaluate the legality of certain credit-related situations. (LH)

****
* Reproductions supplied by EDRS are the best that can be made *
* from the original document. *
****

ED249126

U.S. DEPARTMENT OF EDUCATION
NATIONAL INSTITUTE OF EDUCATION
EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)

☐ This document has been reproduced as received from the person or organization originating it.

☒ Minor changes have been made to improve reproduction quality.

• Points of view or opinions stated in this document do not necessarily represent official NIE position or policy.

"PERMISSION TO REPRODUCE THIS MATERIAL HAS BEEN GRANTED BY

Brandolyn Thomas Clanton

TO THE EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)."

CREDIT

A TEACHING UNIT

BY

BRANDOLYN CLANTON
EDUCATIONAL COORDINATOR

PHILIP PORTER
COUNSEL TO THE ADMINISTRATOR

STATE DEPARTMENT OF CONSUMER AFFAIRS
STEVEN W. HAMM, ADMINISTRATOR/CONSUMER ADVOCATE

AND

HOWARD THOMAS
CURRICULUM SECTION

ELMER WILLIAMS
SOUTH CAROLINA COUNCIL ON ECONOMIC EDUCATION

STATE DEPARTMENT OF EDUCATION
CHARLIE G. WILLIAMS, SUPERINTENDENT

COLUMBIA, SOUTH CAROLINA
1984

S# 015 889

ACKNOWLEDGEMENTS

Credit - A Teaching Unit was developed with funds provided by American Federal, Greenville, South Carolina, South Carolina National Bank and the Direct Selling Education Foundation, Washington, D.C. (Consumer Education Committee).

Special Thanks to Mr. Roy C. Harms, Mr. R. B. (Joe) Dean, Mrs. Katherine Wolfe, The James L. Tapp Company and The R. L. Bryan Company.

Secondary school students will soon be making credit decisions whether they are ready or not. Irrational decisions can affect their credit ratings for years into the future. Therefore, it is vital that the economic instruction provided by schools includes the knowledge and skills needed to function effectively in the increasingly complex credit marketplace.

The instructional materials contained in this publication should be a valuable resource for teachers preparing today's youth for their future economic responsibilities.

Charlie G. Williams
State Superintendent of Education
and Chairman S.C. Council on
Economic Education

One of the most helpful, most misunderstood, most abused areas in the marketplace today is the credit area. Consumers need to be aware of the opportunities credit affords, as well as to be aware of pitfalls they can encounter. Lack of understanding of credit and failure to properly use credit can be deleterious to one's lifestyle. Conversely, proper understanding and use of credit can greatly enhance one's lifestyle. It is, therefore, imperative that we disseminate as much factual information as possible to all our citizens at all ages regarding this marketplace situation we encounter throughout our lives. I urge teachers to use these plans as a basis for disseminating specific information on credit that will help all of us achieve a better quality of life ... now and in the future.

(Mrs.) Nell W. Stewart
Chairman, S.C. Consumer Education
Council

Consumer credit comes in assorted packages and from different sources. Before buying goods on the installment plan or borrowing money for some other purpose, consumers need to know something about the sources of credit, the kinds of credit that are available and how their own credit reputation is established. We have not yet reached the point where cash is obsolete but the tremendous growth in the use of credit and credit cards during the past two decades has been nothing short of phenomenal. This instructional packet was developed by the Department of Consumer Affairs, the Department of Education and the S.C. Council on Economic Education in an effort to assist educators to teach our leaders of tomorrow how to handle credit wisely and responsibly.

Steven W. Hamm
Administrator/Consumer Advocate
S.C. Department of Consumer Affairs

TABLE OF CONTENTS

Buy Now - Pay Later.....1

Plastic Money.....7

Borrowing Money.....10

Contracting for Credit.....15

The Consumer Protection Code.....19

BUY NOW - PAY LATER

BACKGROUND INFORMATION FOR THE TEACHER:

Very few things in life are certain; consumer credit is rapidly approaching entry into that category. The vast majority of Americans have sought credit at some time in their lives. With the gradual transition to a more cashless society, the probability of today's high school students eventually seeking some form of credit is extremely high.

Nearly every adult has been extended credit of one type or another. Indeed, the purchase of many "big ticket" items such as homes and automobiles would be extremely difficult for many if credit were not available.

To illustrate the pervasiveness of credit in our society, consider the following information on the number of holders of major credit cards in 1980.

VISA - 87 million worldwide
Master Card - 80 million worldwide
American Express - 11 million worldwide
Diners Club - 4 million worldwide
Carte Blanche - 850,000 worldwide[1]

The data above become even more astounding when one remembers that credit cards represent only one of the many sources of credit. In this introductory lesson on credit, students (a) identify and evaluate sources of credit, (b) compare some of the costs and benefits of credit and (c) learn and apply criteria used in evaluating applications for credit.

CLASSROOM LESSON:

1. Begin by (a) asking several students to explain what is meant by the term "credit," or (b) obtaining responses to the question, "What comes to your mind when you think of the word "credit?" After several ideas/responses have been generated, guide the class in the development of a definition for the term, "credit." Conclude this part of the lesson by comparing the class-developed definition with a textbook or dictionary definition such as: "confidence in a buyer's ability and intention to fulfill financial obligations at some future time; reputation for solvency and integrity which entitles a person to be trusted in buying or borrowing."

[1] From "Beating the Rising Cost of Credit Cards," Changing Times (December, 1980) p.61.

2. Point out that "degree of confidence (see definition of credit above)" determines whether an individual, business or organization will be allowed to borrow and if so, the amount of debt which can be incurred.

   Use student ideas to generate a chalkboard listing of sources of credit - places or means of obtaining credit when you want to buy something on time.

   a. Commercial banks
   b. Savings and loan associations
   c. Consumer finance companies
   d. Credit union
   e. Life insurance companies
   f. Retail stores
   g. Pawn brokers
   h. Credit cards
   i. Families and friends

   For each source listed, elicit an example; for example, retail stores - Sears & Roebuck Co. Then (a) discuss a circumstance in which each of these sources of credit might be used and (b) compare advantages/disadvantages of the various sources (for example, annual percentage rate, ease of obtainment, etc.).

3. Ask the question, "Why do people use credit and borrow rather than pay cash or save until they can pay cash?" In the ensuing discussion, point out that when you borrow to buy something, say a car, you are not buying a car per se, but you are buying the services obtained from the use of the purchase over the time period you will have it. Therefore what is most important to you is the cost per "service flow" per time period. Some purchase items are consumed immediately or very quickly (for example, a meal or a ticket to a concert) while the services from other more durable things are consumed over a period of time. A good rationale for borrowing is to synchronize the payments for the services you are consuming, such as the services obtained from a car, with the services themselves. Therefore, it makes some sense that a person would not feel obligated to pay for a car with cash because the car will provide services used over a certain number of years. In summary, people may choose to borrow in order to synchronize cash outlay to correspond more closely with the service flow from a purchased good or service.

4. Use student responses to construct a data retrieval chart on the chalkboard which contains some of the benefits and some of the costs of credit. The example presented on the next page can be used to help elicit student responses. After the data chart has been developed, concentrate discussion on the fact that there are several costs to using credit because some young people only consider the more obvious benefits when choosing to apply for and use credit.

5. Explain to students that when an individual applies for credit, the applicant usually completes an application form which is then evaluated by a consumer credit bureau or appropriate officers of the business from which credit has been requested. Evaluators of credit applications often use the "Three C's" to determine credit worthiness. These are:

   Capacity - the ability of a consumer to repay a debt.
   Character - a consumer's willingness to repay a loan as demonstrated by the person's track record of past borrowing activity.
   Collateral - assets, or things of value, which could be used to pay off a loan in the event the borrower was unable or unwilling to do so.

BENEFITS OF CREDIT	COSTS OF CREDIT
Synchronizing income with expenses (See #3)	Risk of insolvency (If one doesn't pay attention to how they'll afford payments, a person can get in a situation where debts and necessary living expenses exceed income.)
Forced savings (Many consumers find it difficult to budget and save but can find room in their budget for "required" payments; buying on credit can force people to save after the fact.)	Budget commitment and flexibility (Payments of debt commit portions of a budget and lessen discretionary income.)
Emergency fund (In real emergency situations, a good credit rating and a few closely supervised credit cards can be of great help.)	Limited choice and higher costs (One can get locked into purchasing at stores which have given you credit accounts, making you less able to take advantage of sales and shopping around.)
Inflation and credit (If inflation is higher than the interest rate and your income is rising with the general rise in prices, it may make good sense to borrow something as the loan's real rate of interest will be negative.)	Finance charges on closed-end (installment loans) and open-end (revolving credit. (A lender charges a fee for covering the cost of maintaining a staff, obtaining the money, providing for losses from "bad" loans and earning a profit for the company. This fee is, of course, added to the amount of money borrowed.)
Recordkeeping, identification and cashless society.	Hidden costs of credit (See the last lesson of this booklet.)[2]

Tell the class that many creditors use some type of formula or rating system to evaluate the information contained in a completed credit application form. Item related to the "Three C's" defined above are often rated on a point scale. For each of the following samples of credit card application information, ask students to (a) identify which of the "Three C's" is most related to the information and (b) determine which of the two given responses would receive a more favorable point rating.

(1) What is your present yearly income?
   (a) $24,000
   (b) $38,000

(2) Do you own or rent?
   (a) own
   (b) rent

(3) Number of years at present job (and number of years at previous job if applicant has been employed at the present job for a short period of time)
   (a) 1 year at present job; 2 years at previous job
   (b) 7 years at present job

[2]This chart has been developed from information in Economic Decisions for Consumers by Don R. Leet and Joann Driggers (Wadsworth Publishing Co.: Belmont, California, 1983), pp. 183-196.

(4) Other credit cards and the balance owed on them
   (a) 3 credit cards with a total balance due of $800
   (b) 1 credit card with a total due of $2,100

(5) Present occupation
   (a) sales clerk
   (b) Lawyer

(6) Name of bank(s) and account number(s) for checking and savings account
   (a) checking account only
   (b) checking and savings account only

Encourage students to provide other examples of information which illustrate the "Three C's" of credit.

6. Conclude the lesson by pointing out that a person takes on considerable responsibility when purchasing with credit and assuming debt. Discuss potential courses of action for a person having problems due to assuming too high a level of debt in relation to his or her income. Point out that bankruptcy is the "last resort" when one simply cannot pay off his or her debts. Hand out the worksheet, "Central Crossword Puzzle-Responsibilities," and ask students to complete the assignment as homework.

SUPPLEMENTARY ACTIVITIES:

1. Direct each student to shop for $2,000 of credit from two banks, a credit union and a finance company with the purpose being to compare credit availability, finance charges and contract terms for the four sources of credit.

2. At the top of a long sheet of construction or butcher paper write the following incomplete sentence: "If I had my own credit cards, I would . . . ." Direct each student of the class to respond during the next day or two by writing his/her completion to the sentence.

3. Make a list of some of the information you would like to have if you were the person responsible for granting credit at a major department store and a person you don't know asked to borrow $1,000.

4. Find out what recourse you have if you make an application for credit and it is denied.

DIRECTIONS:

Using the definitions on the next page, identify the following terms related to the topic of "credit." Each blank represents a missing letter in a word.

1. _ _ _ _ R _ _ _ _ _ _
2. _ _ _ _ E _ _ _ _
3. _ _ S _ _ _ _ _
4. _ _ _ P _ _ _ _ _ _
5. _ _ _ _ O _ _
6. _ _ _ N _ _ _ _ _ _
7. _ _ _ S _ _
8. _ _ _ _ I _ _ _
9. _ _ _ B _ _
10. _ _ _ _ _ I _ _
11. _ _ _ _ _ _ L _ _ _ _ _ _
12. _ _ _ _ _ I _ _ _ _
13. _ _ _ _ _ _ T _ _ _
14. _ _ _ _ I _ _
15. _ _ _ _ _ _ E _ _ _
16. _ _ _ _ S _ _ _ _ _ _ _

DEFINITIONS:

1. The inability to pay one's debts as they become due; a federal court proceeding under which persons who cannot pay their debts in full may be discharged from all or most of their legal obligations to pay those debts.

2. The cost (price) of using someone else's money.

3. The entire property of a person or organization that is subject to the payment of his or her or its debts.

4. The ability of a consumer to repay a debt as shown by income, present debts, employment history, etc.

5. The amount of money or its equivalent received during a period of time in exchange for labor or services.

6. An agreement between two or more parties, especially one that is written and enforceable by law.

7. A factor, element or course involving uncertain danger; hazard.

8. Sums of money or other resources set aside for future use.

9. An obligation or liability to pay something to someone else; something owed.

10. Reputation for solvency and integrity which entitles a person to be trusted in buying and/or borrowing.

11. One of the payments on a loan made to be repaid in specified, usually equal, amounts over a certain number of months.

12. Something for which one is responsible according to law.

13. A consumer's willingness to repay a loan as demonstrated by credit history - that is, one's track record of past borrowing activity - and signs of stability such as kind and amounts of insurance and length of time at present residence.

14. Freedom to select from two or more possibilities or courses of action.

15. Assets which can serve as debt insurance for a creditor; those items of value that could be used to pay off a loan in the event a person was unable or unwilling to do so voluntarily.

16. The act or process of using up something.

BEST COPY AVAILABLE

PLASTIC MONEY

BACKGROUND INFORMATION FOR THE TEACHER:

The use of credit cards is extensive in America today. A person can receive credit cards from banks, oil companies, department stores, telephone companies and credit card firms (e.g., American Express and Diner's Club). Possession of a credit card identifies the cardholder as a person who has been approved to charge goods or services.

There are two basic types of charge accounts that a person must be aware of when applying for a credit card.

(1) Regular accounts which state that one must pay the balance of his/her account in so many days after receiving the bill; the amount of time varies, but is usually twenty-five days. Also, usually there are no finance charges on these accounts.

(2) The revolving charge account allows the holder to pay a minimum amount of money on his balance and interest is then charged on the remainder of the balance. This finance charge varies from 1½% to 2% of the balance per month. This is also known as the annual percentage rate (APR). Today the annual percentage rate on most revolving charge accounts is around 21%-22% per year.

The two best-known, all-purpose credit cards distributed by banks are VISA and Master Card. All-purpose credit cards are those which can be used to purchase goods and/or services at a variety of different places (i.e., doctor offices, department stores, grocery stores, gas stations, hotels). Places which accept these cards are charged a fee by the banks to help in paying for the expenses or providing such a service. In turn, the businesses which accept the charge cards usually pass these expenses on to their customers.

Some credit card companies require full payment of the balance of an account each month. As there are no finance charges, these companies place a service charge on the use of their cards. The cardholder usually pays this service charge annually and the charge varies from company to company. Two examples of this type of credit card are American Express and Diner's Club.

CLASSROOM LESSON:

1. Have students develop a list of the many different credit cards they have seen or know about. After a list of considerable length has been formed, ask students to categorize the entities of the list. Save the category listing for use in step 2 of this lesson. A possible categorization scheme might be:

Department Stores	Oil Companies	Individual Businesses	Banks	Credit Card Companies	Other
(Sears)	(Shell)	(Radio Shack)	(Visa)	(American Express)	

2. Using the material in the section, "Background Information for the Teacher," explain to students the two major types of credit cards. Using the category listings developed in Step 1 above, have students identify examples of companies which use regular charge accounts and companies which issue revolving charge accounts.

3. Have students fill out the application for a credit card contained in this lesson. Before students fill out the application form, go over the form orally explaining what is asked for in the various sections of information. Review the "Three C's" of credit from the first lesson in this unit and ask students to identify specific information requested on the form relating to capacity, character and collateral.

SUPPLEMENTARY ACTIVITIES:

1. Supply students with a number of advertisement clip-outs from the Sunday edition of your local or area newspaper. Ask the students to determine how many of these advertisements encourage them to buy on credit rather than waiting until cash has been saved for a purchase. Also have the students look for information showing what credit cards are accepted.

2. Have a group of student contact a local bank which issues VISA or Master Card to determine the extent a cardholder is responsible for charges made with a card if it is stolen or lost.

3. Students can make a survey of local businesses of their community to determine which credit cards are most commonly used by consumers. The students might wish to determine if any of the businesses surveyed give "cash discounts," that is, if cash is used instead of a credit card, a discount is given from the advertised or regular price.

4. Have some students contact a local merchant or lawyer to find out what will happen if a person does not meet the obligations agreed to when he/she was issued a credit card.

BEST COPY AVAILABLE

Tapp's

Store No	Employee No	Date Received	Limit	Approved Date	E.C.O.A	Plates	Account Number

Applicant

First Name / Middle Initial / Last Name			Age	Social Security No.
Home Address			How Long?	Home Phone
City / State / Zip	☐ Own ☐ Live With Parents ☐ Rent ☐ Other			Monthly Payment $
Previous Address / City / State / Zip			How Long?	No. of Dependents
Present Employer	Position	How Long?		Business Phone
Present Employer Address	Monthly Income $	Gross $ Take Home $		
Previous Employer / Address		Position		How Long?
Other Sources of Income (You do not have to include income from alimony, child support or maintenance payments unless you wish it considered)		Amount	☐ Monthly ☐ Annual	
Type of Account Requested (If joint account complete information below for spouse) ☐ Joint ☐ Individual		Amount of Credit Desired $		

Spouse

Spouse's Full Name			Age	Social Security No.
Present Employer & Address	Position	How Long?	Income	Business Phone

Name of Others Authorized to Use Account		Relationship
Nearest relative not living with you (Name/Relation)	Address	Phone

Financial Information

Bank Reference / Branch City	☐ Checking ☐ Savings ☐ Loan	Account Number

Credit References: Stores, Banks, Finance Co. & Bank Cards (Firm / City)	Account Number	Balance	Monthly Payment

I HAVE READ AND AGREE TO THE TERMS AND CONDITIONS SET FORTH IN THE ATTACHED AGREEMENT AND AUTHORIZE TAPP'S TO MAKE ANY INVESTIGATION NECESSARY TO GRANT THIS ACCOUNT.

Applicant's Signature	Spouse's Signature (If joint account)	Date

C - 25 A

BEST COPY AVAILABLE

BORROWING MONEY

BACKGROUND INFORMATION FOR THE TEACHER:

When you borrow cash or buy something on credit you are promising to pay later. Using credit is not a right which is automatically bestowed on you. It is a privilege which must be earned. Almost every responsible source of credit requires that a formal application be made and carefully examined before anyone is granted credit. The purpose of the credit application and the credit investigation is to determine whether the individual has earned the privilege of using consumer credit. Let's examine some of the places where credit can be obtained.

Banks offer a very wide range of consumer credit services including loans with or without collateral, loans and other financing for major purchases such as buying a home, boat, or financing a college education. Most also offer bank credit cards which are widely accepted by stores and which can be used for cash advances.

Credit Union. Not everyone can borrow from a credit union because loans are made for any worthwhile purpose to members only. Membership in the credit union is limited to people with a common bond such as employment in the same company. Credit unions take deposits and pay interest. Nowadays they offer almost as many services as a bank.

Finance Companies. Finance companies can make loans up to $42,500 - and do. Some of these revolving credit lines work on a check-draft basis.

Insurance Companies. They commonly offer loans to holders of their policies. The loans are frequently limited to the cash value of the policy held by the borrower and must be applied for through the insurance agent or the company's home office.

Savings and Loan Associations. Savings and loan associations grant mortgage loans, home improvement loans, personal loans and loans for education. Some also grant passbook loans to their depositors.

Merchants (Retail Credit). Retail credit is a useful financial resource when you need a product or service immediately and haven't enough cash to pay for it and when you want to budget major purchases over a period of time. Types of retail credit include (1) regular charge accounts, (2) installment or closed-end payments or (3) revolving or open-end plans.

BEST COPY AVAILABLE

Pawn Shops. During times when interest rates are high and money is hard to come by the neighborhood pawn shop is a place where you can get quick cash and possibly find good bargains. If you need cash on a short term basis you can pawn an item of value for a loan. The pawn broker appraises the item and lends you the money. The broker, of course, keeps the item until you return to claim it and charges you approximately 10% of the amount lent per month. If you do not return to claim your item within 90 days, it can become the property of the pawn broker.

The following chart represents a comparison of the approximate cost of borrowing from different lenders.

LENDER	COMMON TYPE OF CREDIT	TYPICAL ANNUAL PERCENTAGE RATE
Banks	Personal Loan	12-18%
Credit Union	Member Loans	9-13%
Finance Company	Auto Financing	13-25%
Department Store	Revolving Charge Account	18%
Retail Store	Installment Contracts (1-3 yrs.)	18-24%
Pawnbrokers	Small Loans	160-240%

CLASSROOM LESSON:

1. Use content presented in "Background Information for the Teacher" to review various sources of credit. Discuss how and why the annual percentage rate charged varies among sources. See if students can identify any other sources.

2. Distribute individual copies of the student handout, "Interest," included with this lesson. Be sure that students understand that the $20 interest paid in the two scenarios does not represent the same annual percentage rate. Point out the advantages to consumers of all rates and terms being common across lenders.

3. Prepare students for the worksheet "Buying a Car," by presenting the following situation. Susan has saved up the $1,200 down payment on a new car costing $8,000. Her bank has told her that she qualifies for a loan of $6,800 at an APR of 12%. The loan officer told her that over the life of the 36 month loan, she would be paying $1,330 in finance charges.
   (a) Over the 36 months of the loan, how much would Susan pay for the car?
   (b) What would the monthly payment be on this loan?

BEST COPY AVAILABLE

4. Distribute copies of the worksheet, "Buying a Car." After allowing ample time for students to complete the computations, check answers and clear up any questions or common errors.

SUPPLEMENTARY ACTIVITIES:

1. Have students or groups of students interview lenders (bankers, etc.) to obtain information concerning the Truth-in-Lending Act of 1968 and collect data on other laws which provide protection for consumers in matters relating to credit and borrowing. Other Acts include Fair Credit Reporting Act, Fair Credit Billing Act, Equal Credit Opportunity Act, Fair Debt Collection Practices Act, Bankruptcy Act of 1978 and Depository Institutions Deregulation and Monetary Control Act of 1980.

2. Obtain information from a bank, car dealer, etc., on the monthly payments and total interest payments on a $7,000 car loan at 13% APR over 24, 36 and 48 months. Discuss the following question:
   (a) Why would a person want a 36 month loan when the monthly payments are less on a 48 month loan?
   (b) What advantages are there to a 48 month loan over a 36 or 24 month loan?
   (c) What determines the number of months (or years) for which a loan is made?

3. Conduct a survey of the geographic area to determine what kinds of help are available for people having a difficult time handling their debts.

4. Discuss factors which affect the interest rate for consumer durables such as automobiles. Have student groups obtain more detailed information on each of the factors identified.

INTEREST

Do you remember when you learned about interest? You could earn by depositing money into a savings account at the bank? Your teacher told you that you could determine how much interest you could earn by the formula, interest equals principal X rate X time or I=PRT. Thus, if you deposit $100.00 into an account which bears interest at 5% per year you will earn interest as follows: I=P(100) X R(.05) X T(1), or $5.00 in one year.

The same basic idea applies to credit. Instead of the bank paying you a specific amount (interest) for the use of your money (principal), when you receive credit, you must pay a creditor a specified amount (interest) for the use of the creditor's money (principal) for a certain period of time.

The formula is the same for simple loans. Suppose on January 1, Ralph wants to borrow $100.00 from Fred and Fred is satisfied that one year from that day Ralph will be able to pay him back because that is Ralph's 18th birthday and he is to receive an inheritance on that date. Fred says, "I'll loan you $100.00 at 20% interest for one year." This means Fred will earn interest as follows: I=PRT or I=$100.00 X .20 X 1, or $20.00. Ralph will owe $120.00 a year from today.

Suppose Ann also asks Fred for the same deal but Fred says, "I'm not so sure you will be able to repay me the entire amount at the end of the year. Here's what I'll do. I'll lend you $100.00 now but you pay me $10.00 on the first of each month. Twelve times ten dollars is $120.00, so you will repay me $120.00. That's 20% - the same deal as I gave Ralph."

Ann thinks carefully about the offer. Finally she says, "Wait a minute; that's not the same deal as Ralph's! Ralph gets to use the entire $100.00 for a full year for a price of $20.00 and a total of $120.00. You want to charge me the same amount $120.00, but you expect me to pay a part of it ($10.00) each month. I get to use the full $100.00 for one month, until I make my first $10.00 payment. I only get to use less and less of the $100.00 as each month goes by. Therefore the rate you want to charge me must be higher than 20%."

Ann is right. The simple formula does not work for more complex, multiple payment transactions. Partly because of this problem, Congress passed the federal Truth-in-Lending Act in 1968. That act required creditors to determine rates by certain specific formulas, and to disclose thoses rates with specific terms. Now creditors must disclose Annual Percentage Rate (APR) instead of interest and <u>amount financed</u> instead of <u>principal</u>. Now all creditors must use the same terms and the same formulas to determine their rates. Thus if you bargain for a 10% APR monthly installment loan on $1,000 financed for one year, you will end up making 12 payments of $87.92 for a total of payments of $1,055.04, and you will pay $55.04 in finance charges. This will be true whether you bargain for these terms at a bank, credit union, savings and loan association, or finance company. Incidentally, the deal Fred described to Ann calls for 35% APR. Thus, these are the questions you should always ask yourself before applying for credit: (1) How much? (How much money do I want to finance?), (2) What is the APR? (Always determine this rate, for the higher it is the more you pay for your credit), (3) What are the payments and how long do I pay them? (The payments must be low enough for you to afford them, but it is no bargain to finance a small television for $20.00 a month for ten years.)

BEST COPY AVAILABLE

BUYING A CAR

PART A - A NEW CAR

Kevin wants to purchase a new car. He has saved $600 toward the down payment. The sticker price of the car is $6,000. Kevin will have to finance 90% of the total cost of the car, or $5,400.

Kevin shopped around for credit at three financial institutions. He found that the Annual Percentage Rate (APR) on $5,400 would be 11% at the credit union, 11.84 at the bank and 12.75 at a finance company.

Based on this information compute the lowest total payments and monthly payments on a 36 month loan.

	TOTAL PAYMENTS	MONTHLY PAYMENT
Credit Union APR - 11% Finance Charge - $964.00*	_____	_____
Bank APR - 11.84% Finance Charge - $1,041.66*	_____	_____
Finance Company APR - 12.75% Finance Charge - $1,126.98*	_____	_____

PART B - A USED CAR

Marvin saved $350 toward the purchase of a used car. The sticker price of the car is $3,500. He will finance 90% of the price of the car, or $3,150.

Marvin also shopped around for credit and found that he could finance $3,150 at the following Annual Percentage Rate (APR): bank - 15.5%, finance company - 18.28% and used car dealer - 50.00%.

Based on this information compute the total and monthly payments on a 36 month loan.

	TOTAL PAYMENTS	MONTHLY PAYMENT
Bank APR - 15.50% Finance Charge - $808.92*	_____	_____
Finance Company APR - 18.28% Finance Charge - $945.47*	_____	_____
Used Car Dealer APR - 50.00% Finance Charge - $2,986.51*	_____	_____

* Based on Board of Governors of the Federal Reserve System, Truth-in-Lending: Regulation Z, Annual Percentage Rate Tables, Volume I, 1969.

BEST COPY AVAILABLE

CONTRACTING FOR CREDIT

BACKGROUND INFORMATION FOR THE TEACHER:

A contract as most people understand it is an agreement which is legally enforceable. Contracts may cover a wide range of human activities, but they all have certain elements.

1. Offer - Joe "offers" to enter into a contract with Bob on certain terms.

2. Acceptance - Bob accepts those terms.

3. Consideration - The parties must give and receive consideration in order to have a valid contract. "Consideration" may be money, a promise to pay money, a promise to do or not to do a certain act, the performance of a task or service or even the relinquishment of a right. In short, it is simply a "yardstick" by which the law measures the stake the parties have in the contract to see if there is a bargained for change of legal position.

4. Parties - There must be at least two parties to a contract, although a party may be a company or an association as well as an individual.

5. Capacity - A party must be capable of forming a legal contract. One cannot contract with a child under 18, or an insane person, or a person so influenced by alcohol or drugs that there is not a genuine agreement to the terms of the contract.

6. Legality - The objective of the contract must be legal. Parties cannot enforce a contract to rob a bank or sell illegal drugs.

A credit contract, in its most basic form is a contract for the sale of money. One party agrees to provide another party with money or its equivalent for a price. This may take the form of a loan (where the creditor lends money directly to the debtor or to his account), or a credit sale (where the creditor actually sells goods or services to the debtor and agrees that all or a portion of the price may be paid at a later time.)

BEST COPY AVAILABLE

Most contracts are difficult to understand to those unfamiliar with the terms. Lawyers who write contracts attempt to reserve as many legal rights as possible for their clients. The trouble is, when merchants or businessmen enter contracts with other merchants or businessmen, they generally understand the terms they are dealing with because it is a part of their livelihood. Consumers, however, enter the marketplace of written contracts less often and occasionally are unfamiliar with the terms of an insurance or credit contract.

Because credit grantors generally insist on writing their own contracts, these contracts are standardized to minimize the risk to the credit grantors. This also leads to the "fine print" clauses in contracts which consumers complain about. These clauses can affect many consumer's rights and many are limited by state or federal law.

This lesson and the following lesson examine some typical credit contract clauses and how they are altered or restricted by law.

The wall chart, "Do You Speak 'Credit'?", produced by the Federal Trade Commission, has been included in the materials of this unit and is a part of this lesson. This chart is useful, because it gives examples of clauses typical to many consumer credit contracts both in "legalese" and "plain English."

CLASSROOM LESSON:

1. Use "Background Information for the Teacher" to identify with students various elements of a contract. Read the following scenarios to the class and ask students to identify the elements of a contract present in each.

   a. Joe offers to sell his stereo system to Bob for $1,000 Bob says "Okay," gives Joe $1,000 and takes the system home with him.

   b. Joe offers to sell his stereo system to Bob for $1,000 Bob says "No, I'll pay you $850." Joe agrees, Bob pays him $850 and takes the stereo.

   c. Joe offers to sell his stereo system to Bob for $1,000 Bob says, "No, but I'll pay you $850 when I get my paycheck on Thursday." Joe agrees and Bob takes the stereo.

2. Use the chart, "Do You Speak 'Credit'?" to introduce nine categories or types of contract clauses which are very difficult to understand. Options for use of the chart include:

   a. Cut the poster into sections and make an transparency of each of the nine items.

   b. Cut the poster into sections and make individual handouts of the nine items.

   c. Read the nine items orally for the lesson and later post the chart in the classroom.

BEST COPY AVAILABLE

Present the nine examples in order, from left to right and top row of three to bottom row of three. The teacher or a student should first read the "legalese" aloud to the class (with the "plain English" version covered). After each example is read the class should be asked to guess what the clause would mean if it were in a contract a classmember signed. Then, read the "plain English" version and write the label for the type of clause on the chalkboard. The clause types or names are presented below (using sequence described above). NOTE: These terms are not presented on the chart itself, therefore, the teacher should place some emphasis on the terms.

Top row, left to right:
1. Confession of Judgment
2. Blanket Security Interest
3. Waiver of State Property Exemption

Middle row, left to right:
4. Right to Collect Deficiency
5. Waiver of Right to Privacy
6. Wage Assignment

Bottom row, left to right:
7. Cosigner Guarantee
8. Attorney's Fee
9. Late Fees

3. Reinforce common problems in understanding the terminology of contracts presented in this lesson by having students complete the worksheet, "What Is The Problem?" Discuss student responses and clarify student errors which might have been made in completion of the exercise.

SUPPLEMENTARY ACTIVITIES:

1. Invite an attorney to the class to discuss common problems consumers he/she has represented have had due to misunderstanding of the terms - "legalese" - of contracts, specifically credit contracts.

2. Obtain copies of credit contracts from various types of lenders to study and compare. Discuss any terms which students do not understand.

BEST COPY AVAILABLE

WHAT IS THE PROBLEM?

DIRECTIONS: Listed below are the names of nine types of contract clauses and five credit contract situations. Use the contract clause names to correctly fill in the blanks found in the five situations.

A. A Confession of Judgment
B. A Blanket Security Interest
C. A Waiver of Property Exemption
D. A Right to Collect Deficiency
E. A Waiver of Right to Privacy
F. A Wage Assignment
G. A Cosignor Guarantee
H. An Attorney's Fee
I. A Late Payment Penalty

1. John enters into a consumer credit sales contract to buy a used automobile. A week later he receives notice that his contract has been transferred to XYZ Financial and he should thereafter make payments to XYZ Financial. Six months later, because of unexpected expenses and other debts, he misses three consecutive payments. He receives several notices from an attorney urging him to bring the account current. Thereafter, he sets aside a paycheck and mails all three payments to XYZ. The next time he goes to XYZ's office to make a payment, the collection manager clerk tells him he owes an extra $50.00 as a "collection cost." John says this is unfair, because he did make the payments. The clerk says "Sorry, but we had to hire an attorney, and the contract you signed contained _____ clause.

2. John realizes he will be short of money for his next payment so he calls XYZ's collection manager to advise him the payment will be late. The collection manager says "OK, just get the money in when you can." John then brings the payment in 15 days after the due date. The collection manager says "That'll be an extra $5.00." John says "But I gave you advance notice and you said it was all right." The collection manager says "Still, the contract you signed had a _____ clause, so you have to pay it."

3. Later, John misses two more payments. The collection manager, after repeatedly calling John, begins to call John's parents and John's neighbors to get them to urge John to pay to "save his credit reputation." John calls XYZ to complain about this conduct. The collection manager says "We can contact anyone we want. The contract you signed had _____ clause.

4. After John remains delinquent, the attorney calls John and says that XYZ may have to sue John for the balance. The attorney says "I doubt that that old car will bring much in a sale, so we will have to take your stereo and TV as well." John says this is unfair, because he never got anything but the car out of the deal. The attorney says "Sorry, but the contract you signed contained _____ clause, and we intend to collect."

5. John finally realizes he cannot make the payments on the car along with his other expenses. Therefore he takes the car to XYZ and tells the manager to do whatever he wants with it. XYZ sells the car for $1,500.00 and applies the $1,500.00 to John's balance of $3,000.00. XYZ then sues John for the remaining $1,500.00. At court, John tells the judge that the car should never have been sold to him for over $3,000.00 if it wasn't worth $3,000.00. The attorney, however, says "Your Honor there was _____ clause in this contract and John is legally obligated to pay."

BEST COPY AVAILABLE

THE CONSUMER PROTECTION CODE

BACKGROUND INFORMATION FOR THE TEACHER:

In the last lesson, contractual clauses which often cause consumer misunderstanding because of legalistic wording were introduced and analyzed. Many of those clauses are limited or changed by provisions of law contained in the South Carolina Consumer Protection Code. This lesson helps students understand how state laws protect them in the areas of credit and credit contracts.

As a general rule, rights under the Consumer Protection Code may not be waived. This means that even if a creditor can get you to agree in writing to give up rights (as in some of the examples from the "Do You Speak 'Credit'?"), this will be ineffective because it violates the Consumer Protection Code. If you want to obtain more detailed information in this area, go to a public library and read and study Title 37 of the South Carolina Code of Laws.

CLASSROOM LESSON:

1. Begin by reviewing the nine types of contract clauses presented and studied in the prior lesson.

2. Tell students that some of those clauses are limited or changed by the law provisions of the South Carolina Consumer Protection Code. Explain that in this lesson, the focus will be on what is and is not prohibited under provisions of South Carolina law contained in the Consumer Protection Code.

   Distribute individual copies of the student handout, "Elements of the South Carolina Consumer Protection Code." Direct students to silently read the handout in preparation for analyzing some specific consumer credit situations. (NOTE: The teacher may opt to proceed, part by part, with oral reading followed by discussion of each part of the handout.) After students have completed reading of the handout, clear up questions students may have.

3. Distribute individual copies of the worksheet "Situational Studies." Explain that in certain of the situational studies, the answer may depend on information not disclosed. In such cases, students should be asked what factors not described in the worksheet might change the answer. Students should be allowed to use the handout, "Elements of the South Carolina Consumer Protection Code," as they complete the worksheet. After students have finished the worksheet, take time to discuss student responses and rationales for responses.

BEST COPY AVAILABLE

STUDENT READING

ELEMENTS OF THE SOUTH CAROLINA CONSUMER PROTECTION CODE

WAIVER OF RIGHT TO PRIVACY

Under South Carolina law, consumer creditors many not communicate with debtors at frequent intervals or at unusual hours or under other circumstances so that it is reasonably clear that the primary purpose of the communication to harass the consumer.

In addition, a consumer creditor may not communicate with the consumer's employer before obtaining final judgment against the consumer except for the limited purposes of locating the consumer or to verify employment. Consumer creditors are also prohibited from communicating with any third party any information affecting the consumer's credit reputation or general reputation, unless the creditor reasonably believes that the third party has a legitimate business need for the information. If the consumer disputes the debt and the creditor knows this, the creditor may not communicate to any person any information regarding the debt unless it is also disclosed that the debt is being disputed by the consumer.

CREDITOR'S RIGHT TO COLLECT DEFICIENCY

The ability of a consumer creditor to obtain a deficiency judgment after the consumer's default is limited under South Carolina law. First, in a consumer credit sale, the creditor has no right to a deficiency unless the creditor has disposed of the goods in good faith and in a commercially reasonable manner.

Second, if the seller repossesses the goods or voluntarily accepts surrender of the goods, he may not look to the consumer for a deficiency unless the cash sale price was $2,400.00* or more. In short, if the cash price of the goods sold are not more than $2,400.00,* the seller may, after the consumer's default, choose to make possession of the goods or to sue the consumer for the balance, but cannot have both. This same principle applies to certain consumer loans where the lender has a close relationship with the seller or where the lender knows before it makes the loan that the seller has failed or refused to perform other similar contracts or consumers have lodged substantial complaints against the seller.

WAGE ASSIGNMENT

Under South Carolina law, no creditor may contract for an irrevocable wage assignment in connection with the payment of a consumer credit obligation. Consumers may, however, authorize a deduction from their paychecks for the payment of a consumer credit obligation, so long as this arrangement is voluntary and the consumer is free to revoke it at any time. Likewise, wage garnishment is prohibited in South Carolina.

*These figures may fluctuate according to an inflationary index.

COSIGNER GUARANTEE

Cosigner guarantee clauses are permitted in South Carolina. In a consumer credit sale or a consumer loan obligation, however, the liability of a cosigner other than the spouse of the consumer is contingent on the cosigner's receiving the following specific notice explaining his or her rights and duties.

NOTICE

You agree to pay the debt identified below although you may not personally receive any property, services or money. You may be sued for payment although the person who receives the property, services or money is liable to pay. This notice is not the contract that obligates you to pay the debt. Read the contract for the exact terms of your obligation.

IDENTIFICATION OF DEBT YOU MAY HAVE TO PAY

_____
(NAME OF DEBTOR)

_____
(NAME OF CREDITOR)

_____
(DATE)

_____
(KIND OF DEBT)

I have received a copy of this notice.

_____
(DATE)

_____
(SIGNED)

If the cosigner receives no such notice, he or she is not liable on the obligation, and the creditor may be subject to a penalty in a lawsuit.

You should take care to read this notice carefully if a friend asks you to cosign an obligation. Many people think that by "signing for" a friend they are simply giving testimony that the friend is a good person and should be given credit. Cosigners are actually obligating themselves to fully repay the obligation even though they get no benefit from the transaction. Remember, if the creditor thought the friend was a good credit risk, your cosignature would not be necessary! Beware of such friends!

The South Carolina Consumer Protection Code does not restrict continuing cosigner guarantees, although the cosigner notice must reasonably inform the cosigner of the obligation he may have to pay. Arguably, future advances not reasonably identified by the notice would not bind the cosigner. Nevertheless, it is important that cosigners read not only the notice but also the contract document to determine the extent of their obligations.

BEST COPY AVAILABLE

LATE FEES

Late fees are also restricted under the South Carolina Consumer Protection Code.

First, late fees generally may not be charged on revolving accounts or "simple interest" accounts (closed end accounts where interest is assessed periodically against the unpaid balance). The reason for this is simple. If a customer pays late, more of the payment is attributed to interest and less principal is paid.

Second, on other consumer credit transactions and simple interest consumer credit transactions secured by real estate or residential manufactured homes, creditors may contract for and receive a late charge not exceeding $8.00* or 5% of the installment (whichever is less), for each installment not paid in full within 10 days after the installment due date.

The South Carolina Consumer Protection Code alsc prohibits the "pyramiding" of late charges. For example, suppose Bob enters into a consumer credit sale obligation whereby he pays 12 monthly installments of $100.00 each on his stereo set with each installment due on the first of the month, beginning on January 1. Suppose further that Bob is late on his February payment but pays it on February 15th. Under "pyramiding" of late charges, the creditor would take the $100.00 payment, assess $5.00 as a late charge and credit only $95.00 to the February payment. When Bob made his $100.00 on March 1, on time, the creditor would assess $5.00 to the February payment because a portion of it remains unpaid and then, because the remaining $95.00 would not fully pay the March installment, another late charge was assessed for March. The late charges would continue in this manner until the end of the contract. Bob would be delinquent each month unless he made a special effort to come into the creditor's office and pay up the late charges. This scenario is prohibited under the Consumer Protection Code. Under the Code, a delinquency charge may not be assessed on an installment paid in full within 10 days after its due date even if earlier maturing installments remain unpaid.

INSECURITY CLAUSE (Not on wall poster but important to S.C. consumers)

This is a form of an acceleration clause. In a consumer credit transaction, the South Carolina Consumer Protection Code allows the creditor to specify in the agreement that "insecurity" constitutes a default only to the extent that the prospect of payment, performance or realization of the collateral is significantly impaired. A whimsical conception of "insecurity" alone will not suffice, although a reasonable belief that the collateral is in danger will. For example, if a finance company manager learns that a consumer who has an automobile loan with his company has defaulted on a number of other obligations, has written a number of bad checks, and the manager has reliable information that the consumer is preparing to leave the state with the collateral, then the creditor would probably be reasonable in believing that the collateral was in danger.

*This figure may fluctuate according to an inflationary index.

To minimize the potential abuses associated with such clauses, however, the Consumer Protection Code specifies that the burden of proving impairment is always on the creditor. That is, if the matter is ever taken to court, the creditor must show that the collateral was in danger - the consumer is not required to show that it was not.

ACCELERATION CLAUSE (Not on wall poster but important to S.C. Consumers)

In many states, contracts may contain clauses which allow the creditor to accelerate the maturity of the obligation if the consumer is in default for any reason. This means that once the debtor defaults, the creditor may require the consumer to pay the entire unpaid balance of the obligation and not just the payment or payments due. If the consumer cannot pay, he may be sued or the collateral may be repossessed.

In a consumer credit transaction, the Consumer Protection Code recognizes only two kinds of default. One is the impairment of collateral or performance, discussed above. The other default is the consumer's failure to make a payment or payments as required by the agreement.

If a default consists only of a consumer's failure to make a payment or payments, after a ten day delinquency, the creditor may give the consumer a notice of right to cure. This notice informs the consumer that he or she is late in making a payment or payments, that the payments must be made current within 20 days, and that if the default is not cured by that time, the creditor may accelerate or repossess the collateral.

Until the cure notice is given and the cure notice period (20 days) has elapsed, the creditor may neither accelerate the maturity of the obligation, nor repossess the collateral. If the consumer cures the default within the 20-day period, his or her rights under the agreement are restored as if the default had not occurred.

This provision prevents the abuse of repossession and acceleration for minor defaults of mistake or inadvertence. If a consumer misses a payment or payments, it gives a consumer a second chance to make sure his or her payments are made promptly according to the agreement, without allowing the creditor to use harsh remedy of repossession as a collection tool.

Nevertheless, the consumer only gets one cure opportunity. The next time the consumer is late in making payments, the creditor may fully assert its rights of repossession or acceleration. Prudent consumers should make all payments on time, but if a consumer is ever late and receives a cure notice, that consumer should make doubly sure that all future payments are on time every time.

BEST COPY AVAILABLE

SITUATIONAL STUDIES

DIRECTIONS: The following situations describe possible actions of creditors. If the action is something the creditor can legally undertake circle the "CAN" response. If the action cannot be legally taken circle the "CANNOT" response.

1. Harold gets a loan from XYZ Finance Company to buy a used car. Harold has unexpected medical expenses and gets two months behind on his payments to XYZ. Connie, the XYZ employee in charge of collections, is responsible for getting Harold to pay his account.

a. Connie writes a letter to Harold's supervisor with only a return box number and her name asking the supervisor to verify that Harold is an employee and give her a home phone number. CAN CANNOT

b. Connie calls Harold's place of employment and asks to speak to Harold. When told he is out, she says, "Please have him call Connie at 321-1234." CAN CANNOT

c. Same as (b), only the receptionist asks what she may tell Harold the call concerns. Connie says:
(i) "It's a business matter." CAN CANNOT
(ii) "It's about his account." CAN CANNOT
(iii) "It's about his past due account." CAN CANNOT
(iv) "Just tell him if he doesn't get a payment in by Tuesday, he'll lose his car." CAN CANNOT

d. Connie calls Harold at his home to discuss his account at 3:30 p.m. CAN CANNOT

e. Same as (d), only Harold hangs up when he recognizes Connie's voice. She dials the number again. CAN CANNOT

f. Same as (d), only Connie knows Harold works third shift and must sleep during the day. CAN CANNOT

g. Connie sends Harold a right to cure letter with the word "Summons" stamped on the outside of the envelope. CAN CANNOT

h. Connie calls Harold's father and asks:
(i) if Harold is there CAN CANNOT
(ii) if he will disclosed Harold's unlisted phone number CAN CANNOT
(iii) if he knows he has a deadbeat for a son. CAN CANNOT

BEST COPY AVAILABLE

2. Suppose Carolyn enters into a consumer credit sale contract with Joe's TV & Appliance in which she buys a stereo system costing $2,500, and she defaults after making three payments. Carolyn voluntarily surrenders possession of the collateral to Joe. Joe, knowing his brother-in-law Fred wants such a system, sells it to him for $150. At a private or public sale, the set would have sold for at least $1,200.

   a. Joe says to Carolyn, "The set cost $2,500, you made three payments of $50 leaving $2,350, I sold it for $150 leaving $2,200. If you can't pay that I'll have to sue." Can he? CAN CANNOT

   b. Suppose Joe sells the set at a public sale for $1,300. He demands $2,500 - $150 (payments made by Carolyn) - $1,300 (amount received at sale) or $1,050. Can he sue her for the $1,050? CAN CANNOT

   c. Suppose the original cost of the set was $2,300. At the public sale, he sold the set for $1,250. He demands $2,300 - $150 (payments made) - $1,250 (received from sale) or $900. Can he sue Carolyn for $900? CAN CANNOT

3. Tom works for a large company which has a separately incorporated credit union serving its employees. He is a member of the credit union. He applies to the credit union for a loan to buy a new car.

   a. The loan officer says, "Let's make the due date coincide with your paycheck, so as soon as you cash it you can make your payment." CAN CANNOT

   b. The loan officer says, "We'll have to have an irrevocable assignment of your wages. If not we'll just have to garnish them." CAN CANNOT

   c. The loan officer says, "Why don't you let us deduct the payment amount from your check. That way, you won't have to worry about it and if you ever decide to do it differently you'll have to make other arrangements." CAN CANNOT

4. Chuck has attempted to arrange a consumer loan with a bank to buy a pleasure boat. The bank loan officer tells Chuck that the bank will be happy to lend him the money if Alice cosigns.

   a. Alice cosigns the note but receives no cosigner notice. Chuck immediately takes the Intracoastal Waterway to Florida never to be seen again. The bank demands payment from Alice. CAN CANNOT

BEST COPY AVAILABLE

b. Same as (a) only the bank mailed Alice the notice within a week of the signing, before Chuck left the state. CAN CANNOT

c. Assume the bank properly provided Alice with the cosigner notice at the time she signed as a cosigner. Chuck defaults but remains in town. The bank demands payment from Alice although she is convinced Chuck is able to pay. CAN CANNOT

d. At Alice's insistence, Chuck pays off the indebtedness on the boat. Alice did not read the contract she cosigned, however, and it provided for a line of credit, a loan which would be continuing until either the bank or Chuck gave each other notice. Under this same line of credit, Chuck gets another advance of $2,000. He defaults. The bank demands payment from Alice. CAN CANNOT

e. Same as (d), only assume Alice read the contract. When Chuck paid off the indebtedness on the boat, Alice sent the bank a notice indicating that she would not guarantee any future advances to Chuck and did not want to be regarded as a cosigner any longer. The bank receives this notice and advances Chuck $2,000 anyway. He defaults. The bank demands payment from Alice. CAN CANNOT

5. Doug enters into an automobile loan with a finance company in which he is required to make his payments on the first of the month, beginning on January 1, 1984. (Write the correct response in the blank provided for each situation.)

a. During 1984, Doug makes all payments exactly on the fifth of the month. How many late charges does the finance company earn? _____

b. During 1984, Doug makes all payment on the fifteenth of the month. How many late charges does the finance company earn? _____

c. During 1984, Doug misses the January payment altogether and pays the February payment on February 1. Each month thereafter he pays exactly on the due date, but never makes up the January payment for 1984. How many late charges does the finance company earn? _____

d. Doug's contract says if he is more than ten days late, he will have to pay a late charge of the greater of $1.00 or five percent of his monthly payment. His monthly payment is $200. He pays his January payment on the 15th. What is the amount of the late charge the finance company earns? _____

6. Assume that Doug in the previous problem has made all of his payments in 1984 until July and he misses both the July and August payments. Which actions might the finance company legally undertake? (Circle the correct response.)

   a. Send a notice telling Doug he has ten days to bring his account up to date. CAN CANNOT

   b. Accelerate maturity of the obligation and send Doug a notice stating he has ten days to pay the entire balance. CAN CANNOT

   c. Repossess Doug's car. CAN CANNOT

7. Suppose Doug is current on his automobile loan but is two months behind on another loan with the same finance company. Which of the following actions may the finance company lawfully undertake? (Circle the correct response.)

   d. Send Doug a cure notice on his automobile account. CAN CANNOT

   e. Send Doug a cure notice on his other account. CAN CANNOT

   f. Repossess the car. CAN CANNOT

8. After Doug has missed one car payment in July, he goes on vacation leaving his address with his boss and neighbors. After Doug misses the August payment also, a finance company employee drives by Doug's house and finds it empty. Which of the above mentioned remedies would be appropriate for the finance company?

9. Doug receives a cure notice in August and brings his account current within the cure period. He pays exactly on the due date every month thereafter until September of 1985, when he pays on September fifth, within the ten day late payment grace period. May the finance company repossess the car? _____ Accelerate maturity of the obligation? _____

BEST COPY AVAILABLE

Do You Speak "Credit"?

When you sign a loan contract you may be agreeing to some strange things.

Confession of Judgment Clause

§ To secure payment hereof, the Undersigned jointly and severally irrevocably authorize any attorney of any court of record to appear for any one or more of them in such court in term or vacation, after default in payment hereof and confess a judgment without process in favor of the creditor hereof for such amount as may then appear unpaid hereon, to release all errors which may intervene in any such proceedings, and to consent to immediate execution upon such judgment, hereby ratifying every act of such attorney hereunder.*

§ If you ever sue me because I haven't paid, I agree, in advance, that you should win — even if I have a good reason for not paying. In fact, *your* lawyer can represent me.

* These are typical standard form contract provisions used in states where they're permitted. One or more may be in the contract you sign.

BEST COPY AVAILABLE

Blanket Security Interest Clause

§ This note is secured by a security interest in all of the following described personal property and proceeds thereof: If checked at left. Consumer goods consisting of all household goods, furniture, appliances and bric-a-brac, now owned and hereafter acquired, including replacements, and located in or about the premises at the Debtor's residence (unless otherwise stated) or at any other location to which the goods may be moved. In addition, all other goods and chattels of like nature hereafter acquired by the Debtor and kept or used in or about said premises and substituted for any property mentioned. Proceeds and Products of the collateral are also covered.*

§ If I don't pay, you can take all the household goods I own.

* These are typical standard form contract provisions used in states where they're permitted. One or more may be in the contract you sig-

BEST COPY AVAILABLE

Waiver of State Property Exemption Clause

§ Each of us hereby both individually and severally waives any or all benefit or relief from homestead exemption and all other exemptions or moratoriums to which the signers or any of them may be entitled under the laws of this or any other State, now in force or hereafter to be passed, as against this debt or any renewal thereof.*

§ If I don't pay, you can come take even the personal belongings state law would allow me to keep.

BEST COPY AVAILABLE

* These are typical standard form contract provisions used in states where they are permitted. One or more may be [illegible]

Right to Collect Deficiency Clause

§ The Creditor may retain the goods as its property or may sell or otherwise dispose of the item pursuant to the (State) Uniform Commercial Code, whereupon Debtor shall be liable for and shall pay any deficiency on demand.*

§ If you repossess what I bought from you and you don't get a good resale price for it, I'll still owe you the difference. (For example, if you take back a perfectly good $500 TV and can get only $150 for it, I lose the TV and still owe you $350).

* These are typical standard form contract provisions used in states where they're permitted. One or more may be in the contract you sign.

BEST COPY AVAILABLE

Waiver of Right to Privacy Clause

§ The undersigned, jointly and severally, waive any right of privacy of any nature in connection with this instrument, regardless of whether or not the debt evidenced thereby may be contested, and agree that the lender may at its option communicate with any persons whatsoever in relation to the obligation involved, or its delinquency, or in an effort to obtain cooperation or help relative to the collection or payment thereof.*

§ If I don't pay, you can tell all my friends and relatives and my boss that I'm a deadbeat.

* These are typical standard form contract provisions used in states where they're permitted. One or more may be in the contract you sign.

BEST COPY AVAILABLE

Wage Assignment Clause

§ FOR VALUE RECEIVED the undersigned jointly and severally hereby assign, transfer, convey and set over unto the Assignee, named above, ten per centum (10%) of all salary, wages, commissions and other compensation for services severally earned or to be earned severally by us in the employ of the employer specified under our names set forth below by whom we are severally now employed or any future employer, until the loan secured hereby and described below shall have been fully discharged.

We severally hereby authorized and direct our said employers or any future employers or either of them to pay said part of salary, wages, commission or other compensation for services to the said Assignee and release such employers or any future employers from all liability to us on account of any and all monies paid in accordance with the terms hereof. We severally give and grant unto the said Assignee, full power and authority to demand, receive and receipt for the same or any part thereof in any of our names.*

§ If I don't pay, just have my boss deduct the money from my paycheck. I won't argue about it—even if I have a good reason for not paying.

* These are typical standard form contract provisions used in states where they're permitted. One or more may be in the contract you sign.

BEST COPY AVAILABLE

Cosigner Guaranty Clause

§ In Consideration of the making and acceptance of the within note by the Debtor and Creditor named therein, respectively, undersigned jointly and severally unconditionally guarantees to the said Creditor and to any Assignee of said Creditor, the payment of all moneys due or to become due under said note, in accordance with their terms thereof, and also the full performance by the said Debtor of all the promises and covenants on his or their part therein contained, and Undersigned does hereby expressly agree that anything in said note to the contrary notwithstanding any lack of capacity or liability on the part of Debtor.

The Undersigned (cosigner) hereby consents to all extensions of time for the making of any or all payments by the Debtor and further guarantees the payment of all said payments due by reason of said extensions. Notice of acceptance of this Guaranty, notice of non-payment and non-performance, notice of amount of indebtedness outstanding at any time protest, demand, and prosecution of collection, foreclosure and possessory remedies are hereby expressly waived.*

§ If I don't pay, you can collect from my cosigner without trying to collect from me first. You don't even have to warn my cosigner I've fallen behind in my payments. 40

* These are typical standard form contract provisions used in states where they're permitted. One or more may be in the contract you sign.

BEST COPY AVAILABLE

Attorney's Fee Clause

§ In addition if this agreement is referred to any attorney for collection due to any default or breach of any promise or provision hereunder by Debtor, Debtor agrees to pay an attorney's fee of 15% of the Total of Payments then due, plus the court costs.*

§ It's a real hassle for you to sue me to collect, so I'll pay for your lawyer.

* These are typical standard form contract provisions used in states where they're permitted. One or more may be in the contract you sign.

BEST COPY AVAILABLE

Late Fee Clause

§ In the event Debtor defaults for 15 days in making any of the aforementioned payments when the same become payable hereunder, creditor may charge the debtor a delinquency or collection charge of 5% of the amount of payments in default or the sum of $5.00 whichever is less.

§ You can charge me a late fee if I'm 15 days late, and if I don't pay on time just once, my state law may let you charge me a late fee on all my other payments, too.

• These are typical standard form contract provisions used in states where they're permitted. One or more may be in the contract you sign.

BEST COPY AVAILABLE